THE SOLAR ALLIANCE MEMBER COMPANIES

American Solar Electric
Applied Materials
Borrego Solar
BP Solar
Community Energy
Conergy
First Solar
Kyocera
Mainstream Energy
Mitsubishi Electric
Oerlikon Solar
Sanyo
Schott Solar
Sharp Solar
SolarCity
Solaria
Solyndra
Solar Power Partners
SolarWorld
SPG Solar
SunEdison
SunPower
SunRun
Suntech
Tioga Energy
Trinity Solar
UniRac
United Solar Ovonic

September 15, 2010

The Solar Alliance's Comments on the

IPA Proposed Procurement Plan for 2011 - 2012

The Solar Alliance is a national trade organization of twenty-seven companies engaged in the manufacture, design, and installation and financing of solar electric generating products and services. The Alliance appreciates the opportunity to comment on the Illinois Power Agency's (IPA) proposed Procurement Plan for 2011 – 2012.[1]

We have four specific recommendations. The Solar Alliance urges the IPA to modify its procurement plan for solar renewable energy credits by developing a long-term strategy, which incorporates contracts of ten years; includes securitization by the IPA of the Alternative Compliance Payment ("ACP") and uses it as the financing mechanism. We also recommend the IPA support development of distributed generation, a critical component to receiving the full benefits of solar on the grid. Our rationale for these recommendations is below and is followed by the recommendations.

Background

I. Creation of a Vibrant Solar Market is Important to Illinois and the IPA is Charged with its Development

Illinois' recent legislation supporting solar energy as an essential component of a diversified and cost-effective portfolio of energy options is consistent with the leading solar policies in the United States. Recent imperatives include the "solar ramp up" legislation (Public Act 96-1437), which accelerated the amount of solar renewable energy credits ("S-RECS") which comprise the Illinois Renewable Energy Standards ("RES"), as required by Public Act 095-0481; as well as the Illinois Homeowners Solar Rights Act, 765 ILCS 165, which delineated the right for solar installation. In addition, the IPA recognizes it is charged with development

[1] The comments contained within are those of the association and do not necessarily reflect the views of any individual member company.

of new generation, including solar.[2] Combined with Illinois' incentive program for solar installations, this parcel of legislation demonstrates Illinois' commitment to the development of solar installations across the state, which should in turn positively impact the price of S-RECs. Solar energy is an important sustainable fuel source, which diminishes operating costs and improves customers' ability to manage their energy spend, while creating a positive environmental impact. Governor Pat Quinn has acknowledged both the importance of solar for sustainability and for green job creation.

Engaging in long-term contracts, developing alternative financing mechanisms and supporting distributed generation will help to:

a) Ensure there is adequate solar supply to meet the Legislative mandates;
b) Provided an opportunity for multiple solar providers to participate in the market, thus ensuring a more competitive price and maximizing the use of available renewable funds;
c) Encourage a sustainable, long term solar industry;
d) Result in a more roust solar market with more efficient pricing than would have otherwise been the case; and
e) Provide experience to the IPA, utilities and other market participants that will be valuable as the market unfolds in Illinois.

In order to achieve the goal of a highly-functioning market that delivers the results Governor Quinn has referenced, certain changes to the status quo will be necessary.

II. A Vibrant Solar Market Requires More Than Prompt Year REC Purchases. [3]

[2] IPA 2001 Draft Procurement Plan, page 6 line 3.

[3] We note that the 2011 proposed plan suggests S-REC only transactions. We encourage the IPA to ensure the energy value of solar as distributed/peaking resources is captured so as to provide Illinois ratepayers the full value renewables.

Cost effective implementation of solar energy requires a longer-term strategy than prompt year purchases of RECs**.** The availability of long term contracts with reasonable terms and conditions is fundamental to a well-functioning solar REC market. Short-term financial incentive programs, such as property tax incentives and solar rebate programs shape the current solar market.[4] As the emphasis shifts from up-front incentives to market-based S-REC payments accruing over the life of the system, there is a need to establish mechanisms to provide some greater predictability and stability of future REC revenues, so that solar developers and customers can understand the financial implications of their solar installation. A long term view is of fundamental importance to the solar market for a number of reasons:

a) Financing of solar projects depends on investor confidence in a long-term revenue stream to defray the initial capital investment. In nascent S-REC markets, investors are likely to greatly discount future revenue streams due to a variety of market and regulatory risks.
b) Load serving entities that assume the RPS obligation may be reticent to enter into long-term contracts with project developers. This may be predicated on expectations of future S-REC prices trending downward, or concerns about a shifting regulatory landscape. Additionally, since the RPS obligation is directly associated with serving retail load, any uncertainty surrounding future customer load will deter long-term S-REC commitments. The tendency towards short-term S-REC purchasing as a risk mitigation strategy will severely constrain the ability of solar developers to obtain project finance.
c) Absent long-term contracts, project investors will heavily discount future revenue streams. This risk premium will tend to inflate S-REC prices in the immediate term, with the additional costs borne by ultimate electric consumers.

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[4] See, e.g., Illinois Department of Commerce and Economic Opportunity Solar and Wind Energy Rebate Program, ILCS 687/6-3, and Illinois Tax Code, 35 ILCS section 200, Article 10.

Current procurement methods for S-RECS may result in higher than necessary prices for load-serving entities and ratepayers. The experience of Solar Alliance members, and a growing body of evidence in other states with competitive energy supply markets and solar renewable energy credit requirements, suggests that bundling energy and S-RECs is creating a long-term market shortfall for S-RECs, leading to artificially inflated prices. The IPA current approach places a heavy emphasis on spot-market S-REC procurement or paying the Alternative Compliance Payment ("ACP"), which in our opinion are the two most expensive means for RPS compliance. It is our view that given the Illinois electricity market construct, separating S-REC procurement from electricity and allowing more flexible procurement methods for S-RECS within the procurement process would directly result in lower prices for the customers served by the IPA, while increasing the liquidity of the S-REC market.

Experience demonstrates the deleterious effects to solar market development caused by a lack of long-term contracting. While market-based solar programs have only been instituted in a handful of other states, and these markets are still in the very early formative stages of development, this early experience points to the critical need for long-term financing. The Alliance urges the IPA to incorporate the lessons learned in other states as the future procurement plan, and solar market, is shaped. New Jersey has incorporated long-term solar contracts as part of their portfolio planning, with the NJ Board of Public Utilities specifically determining, "that S-REC-based financing should be founded on a competitive long-term contract model, under which EDCs would periodically enter into long-term contracts to purchase S-RECs, with the contracts awarded based on the price at which the seller offers to sell S-RECs over the contract term." [5] To similar effect, the Pennsylvania Public Utility Commission recently approved a settlement authorizing PECO Energy to solicit 10-year S-REC contracts for a portion of the company's

[5] Order, BPU Docket No. EO06100744, Amendments to the Minimum Filing Requirements for Energy Efficiency, Renewable Energy and Conservation Programs; and for Electric Distribution Company Submittals for Filings in Connection with Solar Financing, issued August 8, 2008.

Alternative Energy Portfolio Standard (AEPS) requirement to jump-start the Pennsylvania solar market. [6] Although PECO's compliance period for the AEPS does not commence until January 1, 2011 the PAPUC decision allows PECO to enter into long-term contracts now and bank the credits. Negotiations are ongoing with other Pennsylvania distribution companies regarding procurement of solar alternative energy credits. Maryland has convened a proceeding to consider long-term procurement of S-RECs.[7] Finally, the Ohio PUC is currently considering a settlement in First Energy's rate case, which stipulates a four-year procurement plan comprised of four tranches of ten-year contracts.[8] Solar Alliance members have significant experience with the development of specific long-term S-REC contracting and RFP mechanisms in other PJM states, and is prepared to bring these experiences and suggestions to bear.

Recommendations for the IPA

The Solar Alliance has three specific recommendations for the IPA so as to enhance the solar market and improve pricing and allow the IPA to achieve its two significant goals – to establish a procurement process which stabilizes energy prices for those customers who remain on utility generation service; and to achieve compliance with the Illinois Renewable Energy Standard ("RES").

1. Modify the Procurement Strategy in Three Ways

Compliance with the legislative imperatives and the realities of the solar marketplace requires a shift in the IPA's procurement strategy. The IPA has had a strategy of renewable energy credit procurement in the year

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[6] Docket No. P-2009-2094494, Re Petition of PECO Energy Company to Procure Solar Alternative Energy Credits, August 27, 2009

[7] Maryland Public Service Commission, Case Numbers 9056 and 9064, In the Matter of the Competitive Selection of Electricity Supplier/Standard Offer or Default Service for Investor-Owned Utility Small Commercial Customers; and for the Potomac Edison Company d/b/a Allegheny Power's, Delmarva Power and Light Company's and Potomac Electric Power Company's Residential Customers.

[8] Second Supplemental Stipulation, OH PUC Docket No. 10-388-El-SSO, In the Matter of the Application of the Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan.

immediately preceding the procurement year, which essentially leaves the IPA short S-RECs and exposed to market pricing**.**

First, we recommend that the IPA procurement strategy be modified to include, along with some short-term contracts, a long-term S-REC purchase of not less than ten years. This change will provide sufficient impetus for financing to occur.

Second, we recommend the IPA hold a solar only procurement. This will give the IPA and the market an opportunity to prepare for the solar specific RES obligations.

Third, rather than secure ***all*** S-RECs for future years in a given year we recommend the IPA obtain a ***percentage*** of the obligation for each year via laddered contracts. Procuring a percentage will give time for market participants to engage in the Illinois market, resulting in more S-REC sources, more competition and ultimately lower costs. Note that the 2011 proposed plan states the IPA will secure one year S-REC contracts, however, on August 29 the IPA offered an amendment to the 2010 RFP suggesting long term contracts for solar. This is a positive development and we encourage the IPA to incorporate long term contracts in the 2010 procurement, however we urge the IPA to solicit only a portion of what the forecasted obligation is rather than one hundred percent of the future obligation. Should the IPA pursue the latter, future market development will be forestalled and competition very limited.

Fourth, consider separating the S-REC procurement from the electricity procurement process and allow more flexible procurement methods. At the same time the IPA should ensure the value of solar as a distributed resource is not lost (see recommendation #3 below).

2. The IPA Should Utilize Available Financing

Development of a long term solar strategy presents the IPA with the opportunity to utilize the financing abilities contained within the Illinois Power Agency Act, 20 ILCS 3855/1-1, and cited by the IPA in its 2011 proposed plan. 9 The provisions would allow the IPA to finance the long term Power Purchase Agreements ("PPA") by issuing bonds supported by

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[9] IPA plan, page four

revenues from S-REC sales to utilities and ARES, or by securitizing the ACP payments, which are expected to occur. Incorporation of a “securitization” mechanism as a means of facilitating widespread solar project finance within a market-based program construct is critical to future success.

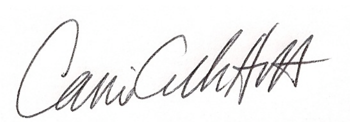
3. The IPA Should Consider the Value of Distributed Generation in Planning

The IPA proposed plan does not recognize the potential unique benefits distributed generation brings to the electricity system and to overall. We proposed the IPA conduct a series of workshops to address distributed generation’s role in IPA planning.

Conclusion

Shifting procurement to a long-term laddered approach, with long-term S-REC purchases of not less than ten years, will provide sufficient impetus for financing to occur, and allow the IPA to achieve their two significant goals. The IPA should convene a series of workshops to discuss development of a long-term solar procurement strategy. The timing is perfect, given the pendency of the solar ramp-up obligations, to gather stakeholders and understand the issues presented by this change in procurement strategy.
Thank you for considering our comments. We welcome an opportunity to further discuss the concepts raised in this filing.

Regards,



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